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Financial Indicators and Corporate Financing Plans:

A Semiannual Survey

October, 1985

The Conference Board

The Conference Board Survey of Financial Indicators

October, 1985

Introductory Note: This is the nineteenth issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

Senior financial executives participating in The Conference Board's nineteenth semiannual survey of Financial Indicators and Corporate Financing Plans look for moderate growth of the U.S. economy in both 1986 and 1987. According to these executives, who were polled in September:

- Real economic growth will average 2.5 percent in 1986 and 2.8 percent in 1987 .
- Inflation will increase slightly, averaging 4 percent in 1986 and 4.5 percent in 1987.
- Profits of the companies in the survey are expected to rise an average of 8.3 percent in the coming twelve-month period.
- The value of the U.S. dollar is not expected to change substantially from its value in early September. (These financial executives were polled before the five-nation joint policy statement about the dollar.)

Moderate Growth Ahead

Most of the 33 executives look for at least two more years of real economic growth. Only a handful now see the economy slipping into a recession next year, and they also expect a rebound with above-average growth in 1987. A few other executives see a recession developing in 1987. By comparison, last April no executive saw a recession taking place, either this year or next. The business executives polled by The Conference Board are far more optimistic than 350 members of the National Association of Business Economists who were also polled in September, roughly half of whom look for a recession to begin before the end of 1986.

Panel members see inflation rising slightly. The highest forecast is for inflation to average 5.7 percent in 1986, and only two executives think it will average as high as 6 percent in 1987. In line with this view, most anticipate gentle increases in short-term and long-term interest rates from present levels. No panel member predicts the prime rate to average more than 11 percent next year or more than 11.5 percent in 1987. All executives see a "normal" yield curve, with short-term interest rates remaining below long-term rates, in 1986, and only one executive sees a flat yield curve in 1987.

Although executives believe real growth will continue with interest rates and inflation rising only slightly, they look for little improvement in the Dow Jones index, which they see averaging 1331 and 1358 in the next two years.

Higher Corporate Profits in 1986

Panel members were asked to provide estimates of the change expected in the before-tax profits of their companies in the coming 12-month period. According to the 21 who responded, corporate profits are expected to rise by 8.3 percent. This figure is in line with Conference Board estimates of before-tax profits for corporations as a whole: profits are estimated to rise by roughly 9 percent in 1986, after falling by about 7 percent in 1985.

Companies in the survey plan to continue their heavy reliance on internally generated funds, which accounted for 81 percent of total corporate funds in the past 12 months. Surprisingly, internal funds of nonfinancial corporations as a whole also averaged roughly 81 percent of total funds for the latest twelve-month period available. This unusually high figure was largely

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The Panel's Outlook for Profits

Number of Panel Members

Less than 0	*Zero but less than 10%*	*10% but less than 20%*	*20% but less than 30%*	*30% and above*	*Range*	*Average*
3	8	6	3	1	(20)-40	8.3

due to a reduction in net corporate equity of more than $70 billion which, in turn, largely reflects corporate mergers and acquisitions.

As for external funds, companies in the survey plan to rely more heavily on new bond issues, a trend which also holds for corporations as a whole. According to Moody's, total prospective financing of industrial companies alone exceeded $50 billion in late September, as compared with $28 billion a year ago. Executives of companies participating in the survey also plan to reduce their companies' reliance on commercial paper in the months ahead.

Outlook for the Dollar

Most survey responses were received before executives could take account of the five-nation accord to lower the value of the U.S. dollar in late September.

The majority of executives whose companies engage in international operations look for the German mark and the Japanese yen to appreciate against the U.S. dollar by the end of the first quarter of 1986. The majority also sees the British pound depreciating against the dollar by year-end. And the majority also looks for the dollar price of gold to rise by March 31, 1986.

Generally, panel members look for a weakening of the dollar in the next two quarters from its September 1st exchange rate. The September accord should, if anything, contribute to lowering the value of the dollar.

Vincent G. Massaro

Please Note: In the interest of speeding the data contained in this publication to you, these series are now available on-line through The Conference Board Data Base. For more information, call Linette Waters at (212) 759-0900.

Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	Latest Available Average (at time of Survey)	Outlook: Average Dec. '85 (4th Q GNP)	Outlook: Average Mar. '86 (1st Q GNP)	Outlook: Average 1986	Outlook: Average 1987
New Aaa industrial rate (%)	10.7	10.9	11.0	11.0	11.3
Prime rate (%)	9.5	9.5	9.7	9.8	10.2
Dow-Jones Average (Index)	1,343.0	1,330.0	1,324.0	1,331.0	1,358.0
Real GNP (%)	1.7	2.5	2.1	2.5	2.8
GNP deflator (%)	2.8	3.5	3.8	4.0	4.5

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A: Actual (past 12 months)	B: Outlook (coming 12 months)—Number of Respondents: Stable (Up or Down by less than 5 percentage points)	Up (percentage points): 5-9.99	Up (percentage points): 10 or more	Down (percentage points): 5-9.99	Down (percentage points): 10 or more
(a) Composition of Total Funds						
Internal Funds*	81	17	4	6	0	5
External Funds	19	17	0	5	4	6
	100%					
(b) Composition of *External Funds*						
Net new bond issues	36.7	11	0	8	0	5
Private placements	1.3	22	0	1	0	1
Net new equity	2.1	20	2	1	0	2
Bank term loans	11.0	21	0	1	0	2
Bank short-term loans	0.0	20	0	3	1	0
Commercial paper	47.7	9	2	3	1	8
Other	1.2	20	0	2	0	2
	100%					

*Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of September 1, 1985:

	Latest Available	Expected Change: By Dec. 31, 1985: Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%	By March 31, 1986: Less than 1% change	Appreciate 1%-5%	Appreciate ►5%	Depreciate 1%-5%	Depreciate ►5%
Canadian dollar	$ .7326	20	4	0*	5	0	11	9	2	7	0
British pound	1.39	4	6	1	15	3	7	6	3	8	5
German mark	.3556	4	12	2	10	1	2	16	6	4	1
Japanese yen	.0042	7	12	2	7	0	2	18	4	4	0
Gold	$333.25	9	7	1	7	1	5	12	1	4	2

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